Whereas Taiwan is the seventh largest trading partner of the United States and imports more than twice as much annually from the United States as does the People's Republic of China; and

Whereas no treaties exist between the People's Republic of China and Taiwan that determine the future status of Taiwan: Now therefore, be it

Resolved by the Senate (the House of Representatives concurring), That Congress—

(1) affirms its longstanding commitment to Taiwan and the people of Taiwan in accordance with the Taiwan Relations Act (Public Law 96–8);

(2) affirms its expectation, consistent with the Taiwan Relations Act, that the future of Taiwan will be determined by peaceful means, and considers any effort to determine the future of Taiwan by other than peaceful means a threat to the peace and security of the Western Pacific and of grave concern to the United States;

(3) affirms its commitment, consistent with the Taiwan Relations Act, to make available to Taiwan such defense articles and defense services in such quantities as may be necessary to enable Taiwan to maintain a sufficient self-defense capability;

(4) affirms its commitment, consistent with the Taiwan Relations Act, that only the President and Congress shall determine the nature and quantity of defense articles and services for Taiwan based solely upon their judgment of the needs of Taiwan; and

(5) urges the President of the United States to seek a public renunciation by the People's Republic of China of any use of force, or threat to use force, against democratic Taiwan.

The title was amended so as to read: ''Affirming U.S. Commitments Under the Taiwan Relations Act''.

Mr. DODD addressed the Chair.

The PRESIDING OFFICER. The Senator from Connecticut.

Mr. DODD. Mr. President, what is the business before the Senate?

The PRESIDING OFFICER. The Senate has no order at this time.

Mr. HATCH. Will the Senator yield so I can put us in morning business?

Mr. DODD. I will be happy to.

MORNING BUSINESS

Mr. HATCH. Mr. President, I ask unanimous consent that there now be a period for the transaction of routine morning business with Senators permitted to speak for up to 10 minutes each.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. HATCH. I thank my colleague.

Mr. DODD. Mr. President, I ask unanimous consent to proceed in morning business.

The PRESIDING OFFICER. That is the present order. The Senator has 10 minutes to speak.

(The remarks of Mr. DODD and Mr. MOYNIHAN pertaining to the introduction of S. 2285 are located in today's RECORD under ''Statements on Introduced Bills and Joint Resolutions.'')

The PRESIDING OFFICER. The Senator from Colorado is recognized for up to 10 minutes.

CAPITAL GAINS

Mr. ALLARD. Mr. President, I wish to speak about capital gains and the way that we look at the estimates that come from a reduction in taxes such as capital gains.

Earlier this year, I introduced legislation to reduce the capital gains tax to 14 percent and to provide indexing of the capital gains tax from that point out. This legislation builds on last year's tax bill which moved the capital gains rate down from 28 percent to 20 percent.

I rise today to commend both the Senate majority leader and the Speaker of the House for their recent calls for a reduction in the top capital gains rate to 15 percent. Both of our leaders have indicated they are introducing legislation to cut the rate. This could be accomplished as early as this year. Again, I commend them for their leadership.

I also wish to express my support for a provision in the IRS reform bill that returns the holding period for long-term capital gains treatment to 12 months. Last year, the administration unwisely insisted on extending this out to 18 months. This added complexity to the code and represented another attempt by Government to micromanage investment decisions.

There is a great deal of interest in the tax treatment of capital gains due to mounting evidence that capital gains tax rate reductions not only benefit taxpayers and the economy but also increase revenues.

Last month, the Joint Tax Committee released new estimates of the revenue resulting in the 1997 reduction of the top capital gains rate from 28 percent to 20 percent. The Joint Tax Committee apparently underestimated the revenue gain in 1998 by $13 billion and in 1999 by $12 billion. In fact, the latest estimates are that over the first 5 years revenue could be as much as $58 billion greater than previously forecast.

Now, this does not surprise me. In fact, there are a number of us in Congress who have been making this very point for years. The capital gains tax rate cut will increase revenue, not reduce it. There are two principal reasons for this increase in revenue. First, there is the short-term incentive to sell more capital assets; second is the long-term progrowth benefit from a capital-friendly tax policy.

The capital gains tax is largely a voluntary tax. The tax is only paid if the investor chooses to sell the asset.

If taxes are high, an investor can hold on to the asset for years. But when taxes are low, investors will often decide to sell the assets and ''realize'' the capital gain.

History confirms this pattern. In 1978, when the capital gains tax rate was reduced from 40 percent to 28 percent, capital realizations increased by 50 percent, and tax receipts increased.

In 1981, Congress and President Reagan further reduced the capital gains tax rate to 20 percent. Once again, capital gain realizations increased dramatically and by 1983 were again up by 50 percent.

By contrast, tax revenues actually dropped for a number of years following the capital gains tax rate hike in 1986.

Mr. President, last year, when Congress proposed to cut the capital gains tax rate from 28 percent to 20 percent, the Joint Tax Committee submitted its revenue estimate.

The Joint Tax Committee forecast a 10-year revenue loss from the rate cut of $21 billion.

Mr. President, it is clear that the Joint Tax Committee and Congressional Budget Office estimates dramatically underestimated both the strength of the economy and the positive response to the tax rate cut.

The Joint Tax Committee now concedes that there will be a significant revenue gain from capital gains realizations.

In my view, a review of the last twenty years of capital gains tax rates and the associated revenues suggests that the model used by the Joint Tax Committee and the Congressional Budget Office to estimate capital gains revenues is flawed.

The Congressional Budget Office argues that government revenue estimates adequately account for behavioral changes that occur as a result of tax changes.

Despite this claim, it would appear that when tax rates are lowered the revenue estimating model significantly exaggerates the revenue losses.

In fact, in no single year after a rate cut has there ever been a loss of revenue.

Conversely, when tax rates are increased, the model significantly exaggerates the level of revenue gains.

Not only do the Congressional models fail to accurately measure the response of taxpayers to changes in tax rates, they exclude an estimate of the impact of tax changes on economic performance.

Congress is largely in the dark when it comes to any estimates of the economic benefit of tax rate reductions.

It is logical to assume that a lower tax rate on capital lowers the cost of capital. This clearly benefits the economy. As a consequence the Federal Government will realize greater income, payroll, and excise taxes. In addition, State and local tax revenues will also rise.

Admittedly, all of this is difficult to measure. However, I would like to see some attempt made to include these factors in revenue models.

At a minimum they should always be appended to the official revenue estimates. This would give Congress a more complete picture of the impact of tax changes on revenues.

Mr. President, I will note that a recent addition to the rules of the House permits the Joint Committee on Taxation to append dynamic estimates to tax legislation when requested to do so by the Chairman of the Ways and Means Committee.

This dynamic estimate is to reflect the anticipated macroeconomic effects